

Business Risk Assessment

NWCF Conference

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Introduction

- Eileen Oliver, Director
PricewaterhouseCoopers
- Tom Boothe, CAPT, CEC, USN Deputy
Commander for Operations,
NAVFACENGCOM

Agenda

- Introduce the Business Risk Pilot.
- Provide an overview of the three phases of the Pilot.
- Provide insights from the participants.
- Allow for a question and answer period.

What is the Pilot

- Enterprise-wide Risk Management Program currently used in private sector organizations.
- Three phased process:
 - Risk Identification/Assessment
 - Risk Mitigation
 - Risk Evaluation

Objective of the Risk Assessment Program

The Program must provide value to the Command and meet the requirements of the Management Control Program. It must engage the participation of executive and mid-level management to identify risk attributes and areas within their Command.

Selection of the Business Risk Program

In 1999 it was determined that the Department of the Navy's (DON) Management Control Program (MCP) was not fully satisfying the needs of management and required an overhaul.

Selection of the Business Risk Program

In support of the Undersecretary of the Navy's initiative to incorporate within the DON many of the best business practices found in leading commercial enterprises the Assistant Secretary of the Navy, Financial Management & Comptroller commissioned a project to re-engineer the MCP.

Selection of the Pilot Participant

To test the feasibility and applicability of the program considering scope, complexity and cultural challenges a Command with many private sector type processes was selected - the NAVFACENGCOM.

What is Business Risk

“Any event or occurrence that will jeopardize the achievement of the Command’s mission.”

Risk Concept

Risk is a concept used to express uncertainty about events and/or their outcomes that could have a material effect on the Command's mission.

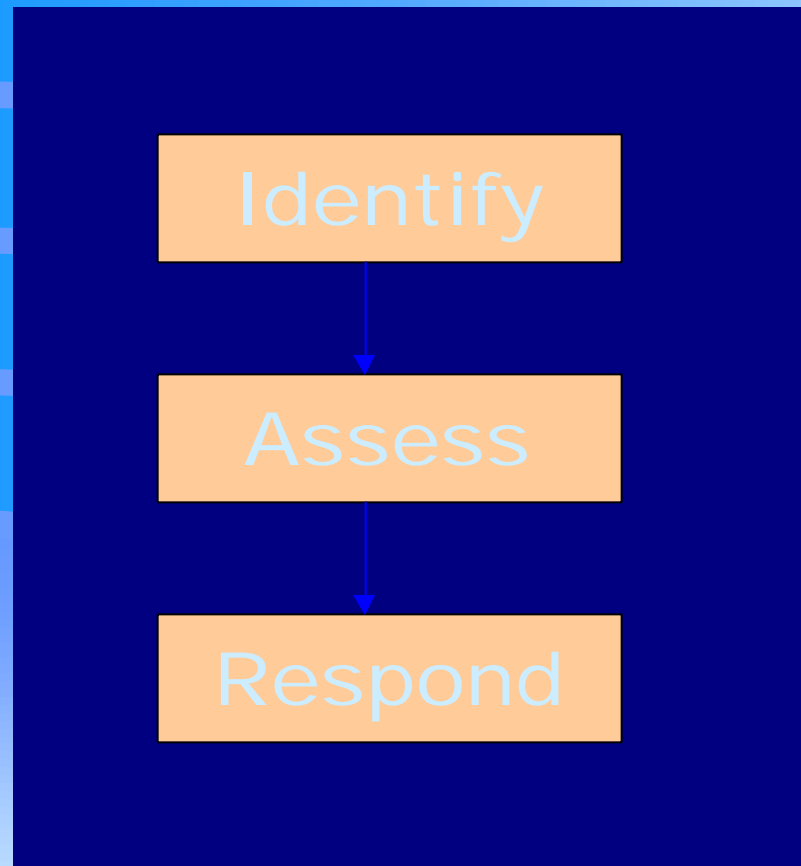
Risk Continuum

DANGER

VS.

Oppportunity

"Risk Thinking" is a Simple Process



Identify the risk issues impacting the organization mission & objectives

Assess the impact and likelihood of those issues

Decide appropriate management process and control actions necessary to respond effectively to those issues

Transforming Common Sense to Common Practice



Though risk thinking can be viewed as management ‘common sense,’ it is not often common management **practice**. Therefore, a framework and methodology creates a systematic approach to identifying business risk and controls to manage or mitigate those risks

Risk Assessment

Phase I

Program Sponsor

Identification of Business Units &
Program Participants

Education provided on
Business Risk

ID Command Mission & Objectives

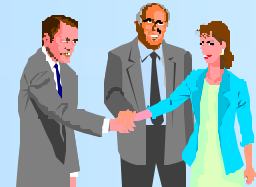
Facilitated Risk ID
Sessions w Participants

Facilitated Risk ID
Sessions w Leadership

**RISK
MAP**

**IMPACT
MAP**

Communication of the Risk
Profile to Command Leadership



Organizational Mission

The diagram illustrates the relationship between an organizational mission and business unit objectives. At the top is a dark blue box labeled 'Organizational Mission'. Below it, two yellow boxes represent 'Business Unit A Objective' and 'Business Unit B Objective'. Arrows point from these boxes to a central vertical red arrow pointing upwards. To the left and right of this central arrow are lists of risk categories: Financial, Reputation, Strategic, Technology, Operational, Human Resources, and Environmental. Red arrows point from these categories towards the central vertical arrow, indicating their potential impact on the mission.

Business Unit A Objective

Financial

Reputation

Strategic

Technology

Operational

Human Resources

Environmental

Business Unit B Objective

Financial

Reputation

Strategic

Technology

Operational

Human Resources

Environmental

Do you have RISKS in these categories that may impair achievement of your objectives and mission

RISK MAP

ABC Corp.

Risk Identification and Assessment Summary - Risk Map

Business Area		Financial	Reputation	Strategic	Technology	Operations	Human Resources	Environmental	FINAL RATING
INFRASTRUCTURE SUPPORT	Procurement								HIGH
	Facilities Management								LOW
	Construction								MODERATE
	Logistics: Transportation & Distribution								MODERATE
	Credit								MODERATE
	Organizational Protection								LOW
	Corporate Finance & Accounting								LOW
	Treasury/Investments/Foreign Exchange								MODERATE
	Marketing								LOW
	Governmental Affairs								MODERATE
	Public Relations								MODERATE
	New Product Development								HIGH
	Product Testing and Evaluation								HIGH
	Laboratory Management								MODERATE
	Quality Assurance								MODERATE
INFORMATION TECHNOLOGY	Information Technology Operations								HIGH
	Information Technology Development								HIGH
	Remote Data Center								MODERATE
	E-Business								MODERATE
	Web Operations								MODERATE
HUMAN RESOURCES	Organizational Development & Training								MODERATE
	Benefits Administration								MODERATE
	Recruiting								MODERATE
	H. R. Regulatory Compliance								LOW
	Labor Relations								MODERATE
	Compensation								MODERATE

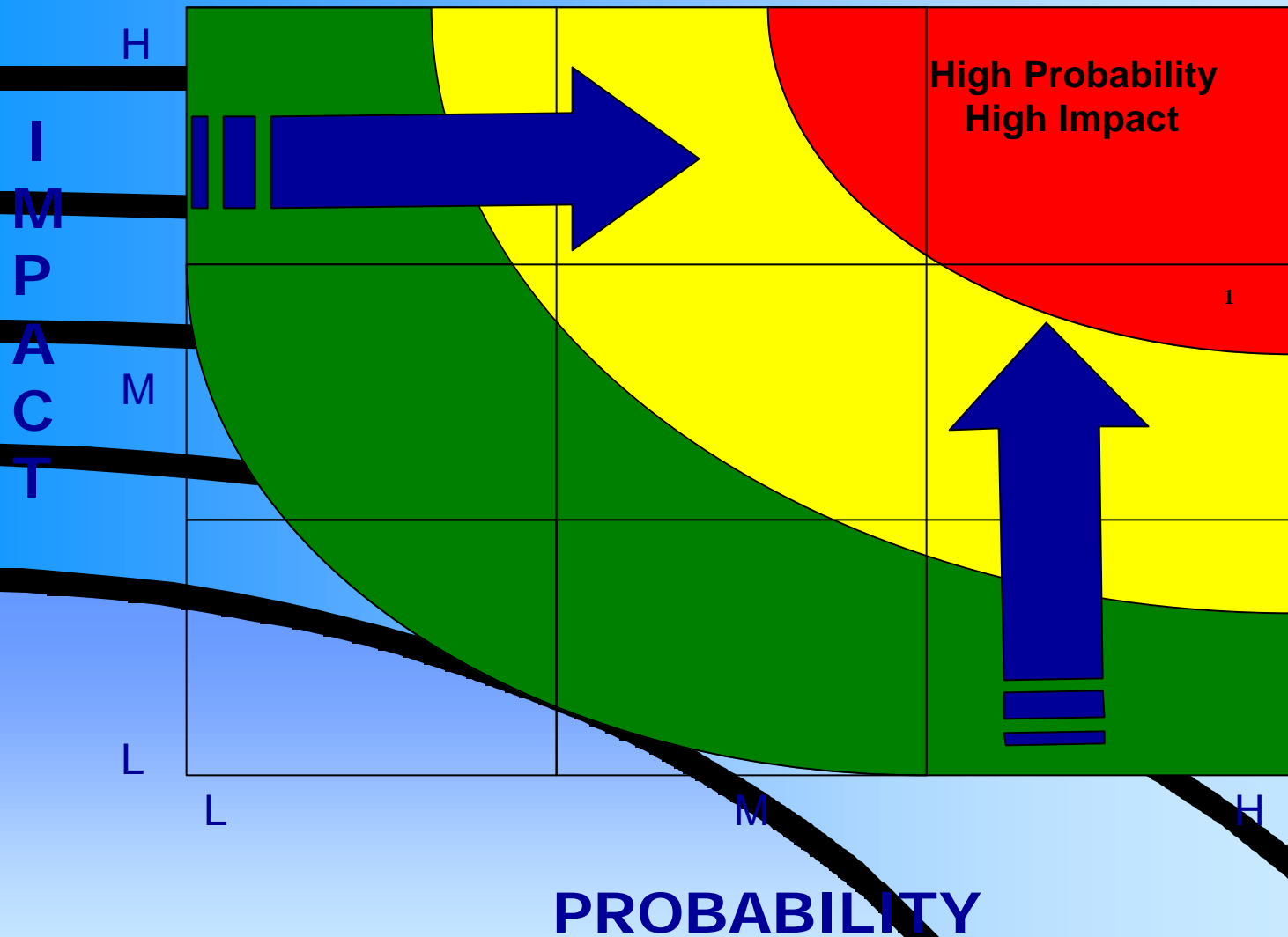
RISK RATING LEGEND:

HIGH

MODERATE

LOW

Risk Selection



Risk Mitigation

Phase II

Communication of
Phase Objectives

Education on the nature of
internal controls

Facilitated Control
Sessions with
Command

Facilitated Control
Sessions with
Command Leaders

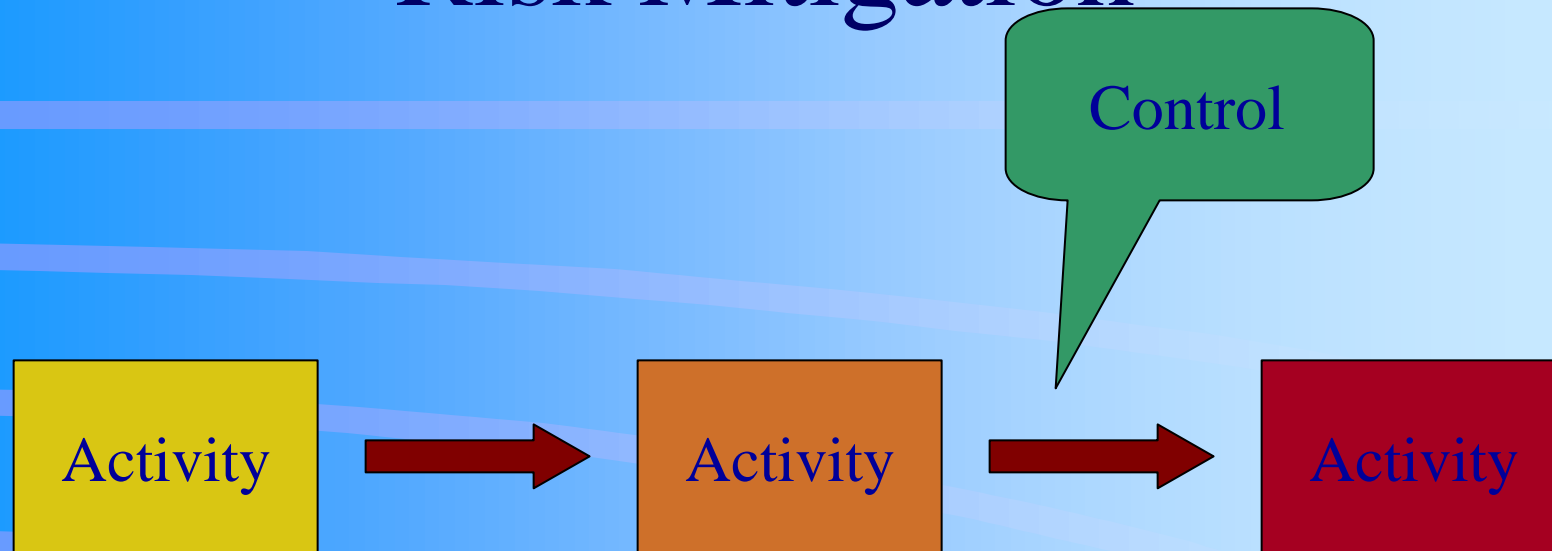
Control
Profile

Communication of the
Control Profile to Leadership

Development of
Missing Internal
Controls



Risk Mitigation



Evaluate the processes and controls contributing to the risk for expected controls and missing controls.

Risk Mitigation Evaluation

**RISK
MAP**

**IMPACT
MAP**

Phase III

Communication of
Phase Objectives

Review of Risk and
Control Profiles

Development of Tests
Matched to Controls or
Development of New Controls

Control Testing

Evaluation of Results

Report
on
Controls

Statement
of
Assurance

**Control
Profile**

• **Material Weaknesses**
• **Reportable Conditions**

Material Weaknesses

Risk Mitigation Evaluation

- Two Pronged Approach:
 - Develop a “Test Plan” to evaluate the controls governing the risk.
 - Test the controls for effectiveness.
- OR
- Develop recommendations and timelines to put in place effective controls.
 - Test the implemented controls.

Program Status

Currently in process of the early stages of Phase III- Risk Mitigation Evaluation.

NAVFAC Perspective

CAPT Tom Boothe,
Commander for Operations

Deputy

Overall Program Perspective

- The program allowed us to look at problems and opportunities (Risk) in a systematic way.
- The program expanded the scope of the review to broader categories of risk beyond financial.
- It allowed us to focus on risk areas within our organization which are normally hard to address.

Risk Identification

- Inclusive process – allowed representatives in the Command to identify and discuss risks within their business unit.
- Lessons Learned:
 - Needs early involvement of “Top Leadership”.
 - Greater understanding of the consistent commitment to the program.
 - Needed more intensive training prior to the facilitated risk identification session.

Risk Assessment

- Validated some risks we already knew.
- Raised awareness of risks across the Command.
- Increased dialogue across the Command on risk areas.
- Assisted us in our strategic planning efforts and made it to our Command “Top Five”.

Selection of Risk Areas

- By evaluating the risk map for areas of high risk and high probability of occurrence two areas were selected for the pilot:
 - Business Line Management Improvement
 - Information Technology System Management
- These areas affect broad areas of Command management.

Risk Mitigation

Through a systematic review of the..

- the “if, then” consequences of the risk ...
- key management processes involved in the risk.....

we began to see relationships and links within management processes that led us to changes and required controls.

Risk Mitigation Evaluation

Currently in progressThe focus has been on developing sound, achievable recommendations, controls and timelines for implementation to reduce the risk.

Costs to the Command

- “New Process” - Integrated within our Command.
- Time - Involvement of Top Leadership in various activities from 1 day sessions to several half day meetings and on-line activities.

Benefits to the Command

- Valuable process to focus management attention and create dialogue.
- Increased awareness of interdependencies and management systems.
- The ultimate benefits will be realized by implementation of recommendations.

The background of the slide is a light blue gradient with several darker blue wavy lines flowing from the left side towards the right. On the right edge, there are three small, stylized blue and white spiral binding elements.

Questions?